

The Four Cornerstones of Reform: Centennial Edition

Preparing Arizona for a Second Century of Opportunity and Prosperity

Janice K. Brewer

Governor



January 9, 2012

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Strengthened by effective fiscal stewardship and sound decision-making, Arizona is well-positioned for a future that is worthy of its remarkable past

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ARIZONA'S CENTENNIAL IS AN EXTRAORDINARY MILESTONE. Commemorating our 100 years of growth, challenges and successes stands in stark contrast to an 1863 report in *The New York Times* that some scorned America's new territory as "one of the most ... hopeless of all the deserts" and wondered "what the territory is worth." As Arizonans are known to do, we marshaled our independent and never-give-up attitude and not only proved the worth of the territory, but created a destination oasis that is a marvel to the world.

Arizona's prosperous first century of statehood has been, like all noble achievements, neither easy nor inadvertent; to the contrary, building Arizona required the vision and struggle of territorial settlers and statesmen and generations of ambitious souls who, by birth or by relocation, rooted themselves here. They dug the ditches and canals, built the dams, plowed the fields, herded the cattle, cut the timber, mined the ore and planted the citrus groves, finding their opportunity to succeed or fail in the last great frontier in the 48 contiguous states. As Arizona embarks on its second century, our citizens and elected leaders should strive to foster the spirit of opportunity that distinguished our State throughout its first century.

Consistent with that ideal, last year I put forth an ambitious plan, THE FOUR CORNERSTONES OF REFORM, which noted Arizona's essential role in the national debate over which of two competing models of government can more effectively augment meaningful job creation and personal income growth. I committed Arizona to the more prudent model, one that "limits the growth of the public sector and restrains unnecessary regulatory encroachment," over the discredited alternative that champions "dual expansion of the public sector and regulatory supremacy."

Working together in an effective partnership, the Executive and Legislative branches enacted the lion's share of the reforms that made up last year's plan. There is still more to do, and I am proposing new goals and new plans by which we will continue to build on the four cornerstones of reform:

- Economic Competitiveness
- Education
- State Government
- Renewed Federalism.

FIRST CORNERSTONE OF REFORM

ECONOMIC COMPETITIVENESS

COMPETITIVE TAXES, A READY WORKFORCE, LEAN REGULATION

"Our valleys, our mesas, and our mountains are pregnant with opportunity for many thousands, and it shall be my aim to show to the outside world that the advantages are real ..."

- Governor George W.P. Hunt
Inaugural Address, February 14, 1912

IN STRIVING TO RECLAIM ITS TRADITIONAL STANDING among America's most prolific job-growth states, Arizona took a major step forward last year with enactment of the Economic Competitiveness Package.

The Arizona Commerce Authority, while still in its infancy, has already been credited with attracting to our State nearly 11,000 jobs and \$9 billion in capital investment.

Thanks in part to these measures and boosted by a gradual national recovery to which it has made meaningful contributions, Arizona ranked among the top ten states in employment growth by adding 46,000 jobs in the last year.

All signs point to an economic turnaround, but we need to do more. Too many Arizonans are unemployed or underemployed, and too many businesses are struggling to regain profitability. We must continue to explore ways to make our tax structure more competitive, lighten the regulatory burden, and offer an even more skilled workforce to growing companies.

Competitive Taxes. Arizona's tax policy reforms in the last year included significant phased-in reductions in corporate income taxes and business property taxes. In producing a flatter, fairer system, our tax reforms have removed or mitigated many obstacles to job growth, are attracting new investment, and are elevating Arizona's reputation as a business-friendly state.

Now our focus should be in fully implementing these reforms and addressing the following problem areas of our tax code.

- *modernizing and simplifying the tax code to improve taxpayer understanding, predictability and compliance.* This is especially crucial for Arizona's small business taxpayers – the backbone of our economy – who have consistently voiced concerns about the difficulties of administering and complying with Arizona's complicated sales tax and personal property tax systems.

- *creating a way for our tax code to isolate capital gains from business growth that have resulted in higher productivity and beginning to treat those gains more favorably.* The taxation of this type of capital gains is too high.
- *adjusting Arizona's net operating loss tax policy.* Arizona needs to be more in line with most other states by measuring business profitability over a longer period of time.
- *finding ways to encourage businesses to remain in or relocate to Arizona so goods and services can be created here and exported to other states and nations.* We have made great strides in increasing the competitiveness of our exporters of goods. Now we must begin to consider similar policies for businesses that export their services.

I will work with the Arizona Legislature to improve our tax system, with an emphasis on assisting our small businesses. They are job creators who will help lead Arizona to better days. They are working hard to make it every day and we owe it to them to get the tax system right.

A Ready Workforce. These days it takes more than dusting off a résumé to find a job, especially for our long-term unemployed and underemployed. The good news is that we have a high-quality workforce: CNBC ranked Arizona as the top state for the quality of its workforce in 2011. However, the sad truth is that too many unemployed and underemployed Arizonans will not get their old jobs back and will need new skills. My heart goes out to them and their families. Arizona will be laser-focused on connecting these people to paychecks, in part by the following reforms:

- *creating the Workforce Arizona Council to recommend other states' best practices that help unemployed and underemployed workers gain the skills that employers need.* While we have a good system now, we can always improve.
- *requiring persons enrolling in a taxpayer-funded job training program to be drug-tested.* Many private-sector employers require mandatory pre-employment and on-going drug testing for their employees. It makes no sense to use taxpayer dollars to train people who cannot meet the demands of many employers in the job market.
- *retraining adults through a Community College scholarship program and transitioning them into careers that meet local workforce needs.* This program, which will be need-based (except for veterans) and pay the cost of tuition up to \$2,000 for two years, has the potential to connect 5,000 people to jobs in their communities.
- *increasing the effectiveness of State agencies that help people find jobs as a condition of receiving public assistance.* We will bypass less effective career development programs in favor of using education and training partnerships to prepare recipients to go to work in the near term.

Lean Regulation. To spare businesses and other employers from further State Government-imposed burdens, my first official act as Governor in January 2009 was to declare a moratorium and review on new regulations.

We will expand our campaign for regulatory reform by:

- enacting an expedited rulemaking process to allow State agencies to streamline their rules while protecting public health, safety and the environment;
- strengthening the authority of the Governor's Regulatory Review Council to streamline existing rules;
- expediting business licensing and other State requirements through formalizing the Governor's Jobs Cabinet of State agency directors so that existing and incoming companies can start hiring and doing business with regulatory certainty; and
- working with the State Agency Fee Commission to ensure that fees are fair and equitably applied.

SECOND CORNERSTONE OF REFORM

EDUCATION

K-12 EDUCATION, HIGHER EDUCATION AND FUNDING REFORM

"[S]elf-government and universal education are inseparable. The one can be exercised only as the other is enjoyed."

- John Goodwin, First Governor of the Arizona Territory

K-12 EDUCATION

ARIZONA'S PLAN FOR EDUCATION REFORM is about expecting more from our children, our schools and ourselves. Children will learn if we expect them to, and we expect them to learn in Arizona.

Our education reform plan, "Arizona Ready," was developed with statewide input and support from educators, parents, business leaders and community organizations. It instills yearly benchmarks that will put Arizona on a path to achieve specific goals by 2020, including:

- improving our high school graduation rate to 93%, from a starting point of 75%;
- enabling at least 94% of third graders to meet State reading standards, in contrast to our baseline of just 69%; and
- doubling the number of college students who complete their studies and receive a four-year degree.

Implementation. With the framework in place to measurably improve students' academic success, our emphasis for this year will be on implementing our planned reforms, not on launching new ones.

We have laid the groundwork for achieving these goals by:

- assigning traditional letter grades to our schools to help parents understand how their child's school is performing;
- rolling out professional development regional centers for teachers and administrators;
- requiring teacher and principal evaluations to include student test scores;
- stopping the promotion of third grade students whose reading scores are far below grade level and, through the "Move on When Reading" program (school year 2013-14), providing more funding for reading skills education in the lower grades;

- implementing higher, internationally benchmarked academic standards to ensure that our students are college- and career-ready;
- replacing the AIMS testing with a more interactive assessment that will test all students in grades 3 through 11 at the beginning of the school year to diagnose needed skills to be on track for college and career readiness; and
- developing a state-of-the-art student database to help teachers improve instruction and be held accountable for results.

Active Parental Involvement in Reforms. Arizona's education reform plan places power in the hands of parents. When families and schools work together, the result is academic success. Parental involvement is vital to a child's education by stressing the importance of learning through reading together every day, monitoring and helping with homework, talking about goal-setting, and volunteering at school. Parents should also identify red flags to foster student success.

In particular, parents need to ensure that they are reading books to their children in the early years, and the children are reading books in the school years. It is a simple fact that children who are read to at home greatly improve their chances for academic success in school. And, later on, children will read at home if they have access to books that interest them. I will lead a campaign this year to encourage parents to read to their children and ensure that their children find books to read and read them.

Classroom Safety and Accountability. In Arizona's second century, every student deserves a safe learning environment led by a qualified, passionate teacher who can lead to individual student achievement.

Parents deserve to know about their children's teachers. A searchable database will be made available to every parent so that they can research a teacher's license and disciplinary actions.

Working with the Legislature, we need to improve our system for the relatively few teachers who need to be removed from the classroom for serious misconduct. Teachers who abuse their special trust to our students should have no excuse and should find a new profession. We need to reform our teacher decertification process by establishing professional practices and mandating automatic loss of teacher certification for certain offenses and reforming our investigatory process by adding investigators to eliminate backlogs and adding victims' rights to the process.

HIGHER EDUCATION

ARIZONA'S UNIVERSITIES AND COMMUNITY COLLEGES constitute a key asset to economic development and the fulfillment of academic ambition for more than 350,000 Arizonans. The undeniable importance of our institutions of higher learning demands that we continue to examine ways to maximize their impact and explore operational and funding reforms.

Performance-Based Funding. The current budget required the Board of Regents to recommend a funding structure that includes performance- and outcome-based funding. The

Universities have published a formula recommendation that includes increases in degrees, credit hours, outside research and public service funding.

Performance funding should drive changes that will move the State closer to a more educated workforce. The State must capitalize on the momentum toward performance funding. In addition to incentivizing the increased production of quality graduates and research, this performance funding formula should incentivize greater production of in-demand degrees – specifically STEM degrees – expand Community College and University partnership programs, and increased graduation rates.

Course Redesign. Arizona's Universities have experienced significant growth in the last decade. This growth has caused Arizona State University (ASU) and Northern Arizona University (NAU) to increase tuition and class sizes. High-volume courses tend to feel impersonal and provide less student support. Consequently, these courses often have higher failure rates. Just as a student receives little benefit from going to a university only to drop out, the State loses out as well.

Therefore, we should invest in course redesign technology that will dramatically change these large, impersonal classes so that students can go at their own pace, receive extra help and improve their learning, while the Universities reduce the per student costs of these classes. If we help ASU and NAU overcome the initial upfront technology costs, we will retain more students and help them achieve their education dreams. In addition, this will help close the per-student funding gaps among the Universities that have existed in Arizona for decades.

Community College Formula. Arizona's funding formula for the Community Colleges does not effectively allocate funds, does not inspire performance, and does not incentivize greater collaboration with the Universities. As the Universities move to performance funding, it will be appropriate to review and reform formulas for Community College State Aid.

EDUCATION FUNDING

BY APPROVING A TEMPORARY ONE CENT SALES TAX INCREASE in 2010, Arizona voters equipped State Government to withstand its most serious fiscal crisis since the Great Depression with relatively modest reductions to the State's core mission of public education.

However, Arizona K-12 schools, Colleges and Universities continue to struggle to provide adequate teacher pay, manageable classroom sizes and affordable tuition rates. But Proposition 100 was designed as a temporary measure, and it will end under my watch.

Still, we must continue the conversation to assure sufficient resources for our public education system. We are blessed to live in a growing state, and Arizona families will – and should – turn to public schools with confidence to educate their children. Arizona is a leader in allowing parents to choose a school that best meets their children's needs. Unfortunately, our State's funding formula has yet to recognize these remarkable innovations in instructional delivery, and it leaves too much to chance

in rewarding great teachers and principals who know how to bring out the best in students.

Whether it is a K-12 school, Community College or University classroom, we can no longer afford to reward institutions for merely finding students to occupy desks for part of the day or part of the year. Instead, we must invest our resources in schools and support the teachers who deliver the results we seek for our children, no matter the educational setting. If we fail to fund the reforms that are needed, we will certainly be asked by the defenders of the status quo to continue to pour more money into a system that is not delivering the results we need or want.

To that end, I am tasking the Arizona Ready Council to develop recommendations for Legislative consideration to fund reforms that promote the results we want in both K-12 and Higher Education.

Arizona must make a new promise to students of the second century: that they will be free to achieve, in a safe setting, with a qualified teacher, and with the resources they need – no matter where they live or in what setting they spend their school day.

If we want future generations to have the same quality of life we enjoy, we must act now. Our world is becoming an increasingly competitive place. In order to grow the economic opportunities that our State needs, we must have a highly educated, technically prepared workforce to fill the job demands of the next century. Reforming our education funding system is an urgent step to achieve this goal.

THIRD CORNERSTONE OF REFORM – 2012 CENTENNIAL

STATE GOVERNMENT

EXTREME MAKEOVER: THE CENTENNIAL ARIZONA EDITION

"[G]overnment . . . to be successful must be prudently, systematically, energetically and economically conducted."

- Governor George W.P. Hunt
Inaugural Address, February 14, 1912

BUDGET REFORMS

TO BALANCE OUR BUDGET during the recent economic downturn, the State of Arizona implemented over \$9 billion in temporary solutions, one-time "fixes" and deferrals of critical spending. A number of the budget-balancing measures represent long-term fiscal burdens on State Government and/or impair the ability of State agencies to carry out their essential missions.

While the State cannot, in one year, recover from a prolonged period of sacrifices laid at the altar of the balanced budget, the State can take significant steps to reform the budget process, correct the one-time fixes and implement safeguards to protect future budgets.

Statutory Formulas. State budget development over the last century has devolved into a series of statutory formulas that provided regular funding growth without consideration, in many cases, to available resources or actual needs. Formulas must not be allowed to hijack the budget process. Funding

should address needs that are identified through the traditional budget process.

Strategic Planning. The FOUR CORNERSTONES vision should be developed and applied to each State agency in a Five-Year Strategic Plan that includes the agency's strategic issues, mission statement, description, goals, strategies and resource assumptions. While current law requires Five-Year Strategic Plans only of annual budget units, all State agencies should prepare them, and I ask the Legislature to change the law accordingly.

Federal Funds. Federal spending plays an increasingly important role in the operations and finances of every state, with some state functions supported entirely by funding from Washington. Fiscal realities dictate that, at some point, the federal government will begin tightening its belt, and state governments will feel the pressure.

It is critical that we improve our processes for identifying, tracking and managing federal dollars, to help decision makers identify risks to State operations and make long-term preparations for inevitable federal spending cuts.

OPERATIONAL REFORMS

WITH OUR BUDGET IN BALANCE and the economy beginning to grow, we have an opportunity to focus our attention on overdue operational reforms. From archaic personnel regulations and antiquated data systems to unnecessary licensing delays, State Government is due for an update. I like to call it "Extreme Makeover – The Centennial Arizona Edition."

Personnel. The State's personnel systems would not be tolerated in the private sector. Hiring workers takes too long, firing workers is difficult, and rewarding employees is nearly impossible.

In the next five years, 30% of the State's workforce will be eligible to retire, and we need a personnel system that will let us compete for talented, motivated workers who have career and employment options.

We should consolidate our personnel systems, restructure the grievance and appeal system, modify human resource practices, and incentivize our best producers to abandon the confines of the current system to pursue opportunities for advancement.

Technology. The State's accounting system runs on an outdated operating system and antiquated software and with no external support. It is no exaggeration to describe it as a high-wire act with no net.

When the system fails, the consequences will be catastrophic. Working with the Legislature, we must achieve a system replacement.

Efficiency. As part of our economic competitiveness and regulatory reform agendas, State agencies will be transforming their operations through "lean" waste reduction principles and practices. In state after state, lean methods have reduced wasted time and effort, increased efficiency and improved service quality.

I am creating a Government Transformation Office, within the Department of Administration, to implement a statewide continuous improvement culture focused on education, process

improvement projects, and capital impact. Over the next three years, the Government Transformation Office will:

- implement a statewide development program to prepare trainers and agency resources;
- develop a centralized team to support agency process improvement projects;
- develop standardized methodologies, tools and a collaboration platform;
- identify and facilitate prioritized process improvement projects; and
- report and track key metrics.

SOCIAL SAFETY NET PROGRAMS

ARIZONA NEEDS TO REPAIR some key strands of a State safety net badly frayed in recent years by necessary budget cuts, impacting Arizona's most vulnerable. In conducting these repairs, our motto should be to help those who cannot help themselves.

Child Protective Services (CPS). There is no higher priority than the safety of children who, through no fault of their own, are in the State's care and custody. The Arizona Child Safety Task Force has sought to improve how the State oversees children under its care and how it investigates potential cases of abuse and neglect.

We must strengthen State safeguards, and we can accomplish that objective by:

- involving law enforcement in Priority 1 investigations that involve allegations of criminal conduct;
- training all CPS workers in law enforcement investigation techniques;
- revamping the abuse hotline to improve screening, decrease overall wait times and expedite high priority calls;
- improving pre-service and in-service training to case workers;
- including quality management reviews of caseloads for trends and priority upgrades; and
- allowing case workers to advance their careers while staying in the field instead of having to join the management ranks.

Behavioral Health. In Arizona, an individual with a serious mental illness (SMI) could have to navigate through as many as five systems to receive care.

Planning is underway to start a "Recovery through Whole Health" pilot program that integrates physical and behavioral health care services for Medicaid-eligible SMI individuals. This patient-focused approach will result in better outcomes, such as fewer hospitalizations and less reliance on the crisis system.

As for SMI individuals who do not qualify for Medicaid, they often become part of the emergency care or criminal justice system in order to receive treatment. This spring, I will propose services that assure those individuals also receive medications and support toward recovery.

FOURTH CORNERSTONE OF REFORM

RENEWED FEDERALISM

"The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the States respectively, or to the people."

- Tenth Amendment,
Constitution of the United States of America

ARIZONA'S ENTRY INTO THE UNION WAS DELAYED when President Taft vetoed Arizona's statehood resolution because the proposed constitution allowed for the recall of judges. To appease him, in December 1911 the people of the Arizona Territory voted to eliminate that provision, and on February 14, 1912, Arizona became a state. Nine months later, the new state's voters restored that provision to the State Constitution – and in the Presidential election cast less than 13% of their votes for President Taft.

Thus began a sometimes contentious relationship, now 100 years old, between the State of Arizona and a periodically overbearing federal government.

Federalism Cases. Arizona is at the forefront nationally of two Renewed Federalism efforts pending before the U.S. Supreme Court to prevent the federal government from exceeding its constitutional power.

BORDER SECURITY/ILLEGAL IMMIGRATION. The legal battle over Senate Bill 1070, Arizona's anti-illegal immigration measure, reached the U.S. Supreme Court when the justices decided to hear our appeal in *State of Arizona and Janice K. Brewer v. The United States of America*.

As was stated in our brief, the Obama Administration's argument that states "are powerless to use their own resources to enforce federal immigration standards without the express blessing of the federal executive goes to the heart of our nation's system of dual sovereignty and cooperative federalism."

FEDERAL HEALTH CARE MANDATES. In alliance with more than half of the states, Arizona is leading the legal fight against the Patient Protection and Affordable Care Act of 2010 (PPACA), the federal government's unconstitutional intrusion into America's health care system. PPACA's individual mandate and the financial burdens that the Act places on state governments are examples of unconstitutional federal excesses.

The U.S. Supreme Court will hear these cases in early 2012 with final decisions expected in June 2012. The successful outcome of these cases will serve as the legal bulkhead for Renewed Federalism.

Environmental Protection. Under our federal system, both the U.S. Environmental Protection Agency (EPA) and the Arizona Department of Environmental Quality (ADEQ) have important roles in protecting our environment. However, federal environmental regulation has too often imposed a "one-size-fits-all" regimen on Arizona and ignored the unique issues facing the arid southwest. For this reason, Arizona has wisely sought to administer most federal environmental programs in our State and should carefully consider administering the remaining programs in federal hands.

Unfortunately, the EPA is attempting to bypass our federal system of environmental regulation by settling legal actions brought by special interest groups without consulting with the states. Environmental policy should not be determined through settlement negotiations at the federal level that exclude the states where the alleged environmental violation occurs.

We want to work collaboratively with the EPA to protect the environment, but we will challenge the EPA at every turn to ensure that Arizona has a seat at the table to protect its interests.

Federal Forest Management. This past summer, Arizona faced a frightening enemy – an enemy that threatened lives and livelihoods and the natural beauty of our State. More than one percent of the total land mass in Arizona burned.

Those fires proved once again that federal land management policies have left our public lands overgrown and vulnerable to the kinds of massive blazes we saw last year. We need a return to responsible thinning and active management of federal lands.

Arizona is trying to lead the way with its Four Forest Restoration Initiative. This initiative has been delayed almost a year now. We need a contractor to be chosen so we can start thinning our forests. This initiative is a truly collaborative process and it needs to be implemented now. The State has done its part. We need the federal government to do its part!

CONCLUSION

"[I] have the hope, the ambition and determination to so discharge my public trust that it will be said of me that 'he started the state off right.'"

Governor George W.P. Hunt
Inaugural Address, February 14, 1912

AS GOVERNOR HUNT PLEDGED in 1912, my goal is to "start the state off right" in 2012. We have weathered a monumental budget crisis, streamlined State Government and, through effective fiscal stewardship and sound decision-making, set Arizona on a well-conceived course to future prosperity.

Many challenges and difficult decisions still lie ahead, particularly if an overbearing and all-consuming federal government continues to overstep its constitutional bounds. But with a strong commitment to efficiency, innovation and effectiveness, we have set in place a government that respects the people and companies that fund it, a government that will create an environment in which businesses and families can flourish, and a government that is committed to providing the high level of service quality and responsiveness that the people of Arizona expect and deserve at the dawn of Arizona's second century of statehood.